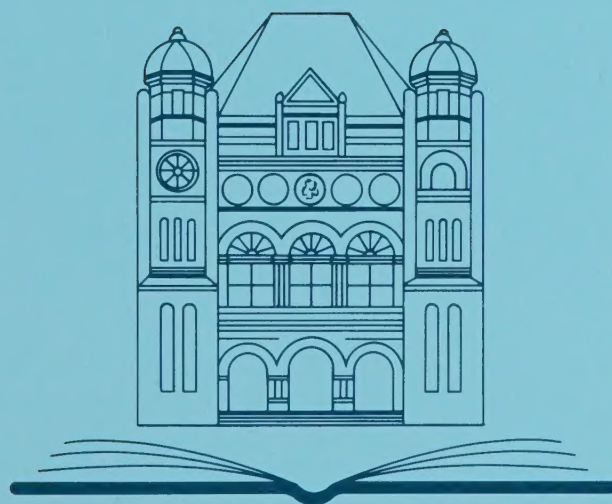


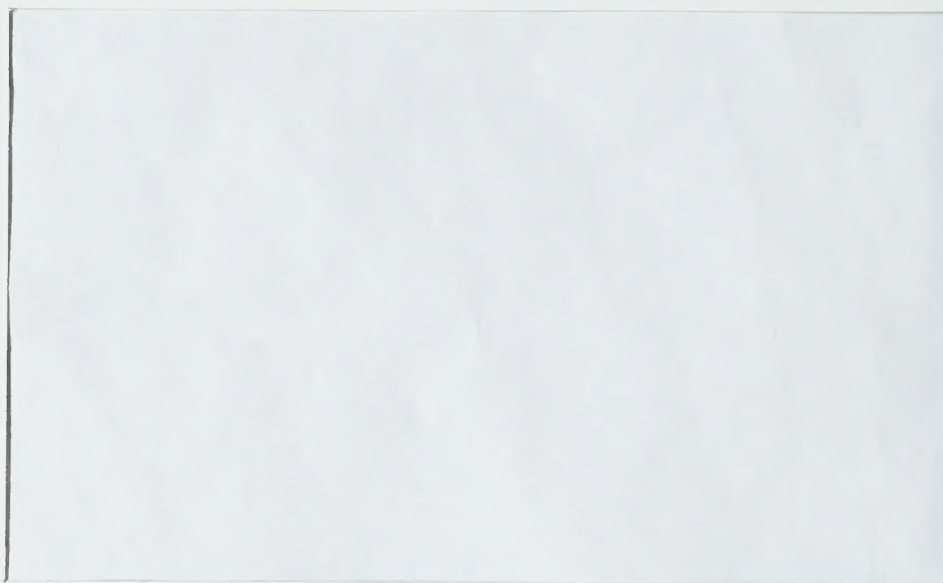
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THE IMPACT OF CASINOS
ON HORSE RACING *



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**THE IMPACT OF CASINOS
ON HORSE RACING ***

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CONTENTS

INTRODUCTION	1
DEVELOPMENTS IN THE HORSE RACING INDUSTRY	1
Current State of the Gaming Industry	1
Canada	1
United States	2
Off-track Betting and Simulcasting	3
IMPACT OF CASINOS ON HORSE RACING	5
Studies of Projected Impacts	5
Actual Impacts in Specific Jurisdictions	7
Ontario (Windsor)	7
Manitoba	8
New Jersey	9
Illinois	9
Minnesota	10
STRATEGIES TO RESPOND TO CASINOS	11
Joint Ventures	11
Slot Machines in Racetracks	12
Marketing Efforts	14
Off-Track/Teletheatre Betting	15
Reduced Taxes	15
APPROACHES TO MITIGATE THE IMPACT OF CASINOS ON THE FORT ERIE AND WINDSOR RACETRACKS	16
NOTES	18



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INTRODUCTION

In its November 1995 Fiscal and Economic Statement, the Ontario government announced its intention to proceed with opening a casino in Niagara Falls. At the same time, the government indicated its intention to strike a legislative committee to examine options for holding referenda in Ontario, at the local level, to decide on the expansion of casino gambling in the province.¹

These announcements raise again the need to consider some familiar issues concerning the impacts of casinos.² One such issue is the effect casinos may have on the Ontario horse racing industry. This paper provides an overview of the current state of the North American gaming industry and examines the impact the introduction of casinos has had on horse racing in a number of jurisdictions. It then looks at attempts by the horse racing industry, and legislators, to respond to the restructuring which is occurring in the gaming industry as a result of the proliferation of casinos. Finally, the paper considers the implications of casinos for the future of the Windsor Raceway and the Fort Erie Race Track.

DEVELOPMENTS IN THE HORSE RACING INDUSTRY

Current State of the Gaming Industry

Canada

Prior to 1969, pari-mutuel betting at racetracks was the only form of gambling permitted. However, at that time, amendments to the *Criminal Code* expanded legalized gambling in Canada by permitting governments to conduct lottery schemes, and authorizing provinces to license various games of chance for charitable or fund-raising purposes.³ As a result, lotteries began in the early 1970s and have since grown astronomically.⁴ Charitable casino gaming also began at that time, taking hold particularly in the Western provinces. Although the amendments also permitted provincial governments to conduct a broad range of other lottery schemes, including casinos, slot machines and video lottery terminals, it was not until the late 1980s and early 1990s that provinces ventured into these areas.⁵ Charity casinos, lotteries, horse racing, video lottery terminals, bingos and now full-scale casinos exist, in different combinations, in most provinces.⁶ In Ontario, legislation to permit full-fledged casinos was enacted in December 1993.⁷ However, Ontario still does not permit the operation of video lottery terminals or slot machines outside of a casino.

In terms of overall revenues, gaming has become a significant sector of the economy. In 1991, for example, total gaming revenues were \$9.3 billion in Canada and \$4 billion in Ontario. By market share, gaming revenues in Ontario

broke down as follows: lotteries — 34.3%; horse racing — 27.6%; and, bingos, break-opens and raffles — 38.1%.⁸

While these numbers give a sense of the size and distribution of the gaming market, they do not give a picture of the areas of growth in the industry. While lottery sales in Ontario have quadrupled over the past 12 years, wagering on horse racing has been relatively flat, and in real terms, has in fact declined.⁹ In real dollar terms, total horse race wagering in Ontario decreased 21%, and attendance fell 15%, between 1981 and 1992. Over the same period, total horse race wagering in the rest of Canada fell by 44% and attendance fell by 29%. The current state of the racing industry in Ontario has been summarized in a discussion paper prepared by the Ministry of Consumer and Commercial Relations in January 1994:

While the horse racing industry in Ontario is relatively strong compared to other jurisdictions, it is evident the industry is not growing and many of the stakeholders are reassessing their future in the industry as the declines in breeding activity, both standardbred and thoroughbred, indicate. Both attendance and wagering levels have decreased in recent years, resulting in large losses for some racetracks which have implications for their long-term viability.¹⁰

One reason given for the decline in the industry has been competition from other forms of betting and entertainment combined with the pari-mutuel tax system.¹¹ A pari-mutuel tax is a tax on the amount wagered. The race track is still taxed separately in the same manner as other corporations on its profits.

By way of contrast, all indications are that casino gaming in Ontario will be extremely successful. In 1994, the Windsor casino began operation as the provincial test site for casino gaming. *Casino Windsor*, as it is known, enjoyed an extremely profitable year. A report of its first year of operations by KPMG Management Consulting for the Ontario Casino Corporation shows that the casino generated \$440 million in revenues for the three levels of government alone.¹² Demand is sufficient that the Windsor casino has begun operation of a riverboat, anchored just down the street from the existing interim casino, and new casinos are to open in Orillia¹³ and Niagara Falls¹⁴ this year.

United States

Developments in the gaming industry in the United States are similar to those in Canada. In 1980, only two states - New Jersey and Nevada - had casino-type gambling and 14 had lotteries. By 1994, 26 states sanctioned legalized casino gambling and 36 states were running lotteries.¹⁵

In terms of market share, the American breakdown was roughly as follows:¹⁶

UNITED STATES, 1994	
FORM OF GAMING	MARKET SHARE
Casinos	38.5%
Lotteries	35.4%
Indian Gaming	8.6%
Horse Racing	7.4%
Greyhound	1.6%
Bookmaking	0.5%

In 1994, market share for the horse racing industry went down by 0.9% from 1993, while the market share for casinos increased by 2.4%.¹⁷

Figures for 1994 show that pari-mutuel betting on horse racing in the U.S. experienced only marginal growth. Specifically, on-track handle (money wagered at the track, on races run at the track) was down 8.1%, while inter-track wagering was up 19.9% and off-track betting was up 5.7%. The overall increase in wagering in 1994 was 3.2%.¹⁸ However, pari-mutuel horse race wagering in the U.S. has also lagged behind inflation. One study concluded that from 1970 to 1988, real average daily handle generated by the pari-mutuel horse race industry in the United States fell 48%.¹⁹ It has also been noted that during the 1990s total betting on horse racing declined by about 10% in constant dollars. Some of the reasons given for the decline are the increase in casino gambling, an aging clientele and overbuilding of racing operations.²⁰

While horse racing has enjoyed very limited growth, casino gaming has exploded in the 1990s and revenues have continued to increase. Gross gaming revenue from casinos in 1995 increased by 22.6% over the previous year. This followed an increase in gaming revenue of 18.6% in 1994. Much of this growth came from riverboats which reported a 123.7% increase in gross gaming revenue in 1995, following an increase of 249% in 1994.²¹

Off-track Betting and Simulcasting

One of the most significant developments in the horse racing industry in recent years has been the movement toward a combination of off-track betting (OTB)

and inter-track wagering. Essentially, off-track betting enables bets to be made at OTB betting parlours, sometimes equipped with a "teletheatre" which enables the patron to watch the race through a signal beamed from the racetrack (referred to as "simulcasting"). Inter-track wagering involves a host racetrack receiving or sending a signal for a live race to another track where patrons can bet on it. Through simulcasting, racetracks are able to receive upwards of a hundred races a day, year round, beamed in from jurisdictions around North America and the world. This is in contrast to offering the patron only 13 or 14 races a day, on 125 to 150 days a year. The ability to simulcast races, along with the opening of off-track betting parlours, has enabled the industry to make the racing product much more accessible to the public. The Ontario Jockey Club has also proposed taking this one step further by setting up a province-wide cable TV channel as part of a telephone betting system that would allow people to watch and wager on horse racing at home.²²

The availability of off-track and inter-track wagering has meant a very substantial change in the relative proportions of on-track handle, and off-track and inter-track betting. In the United States, for example, from 1982 to 1994 on-track handle decreased by 43.54% or an average of 4.65% per year. However, this decrease was made up by increases in off-track and inter-track betting, so that total wagering over the period increased by 21.08% or an annual average of 1.61%.²³ In dollar terms, one estimate placed the amount wagered in the United States in 1990 at live horse races at \$6.8 billion and \$4.6 billion at card clubs and OTB parlours. In 1994, these numbers had changed to \$4.3 billion at live meets and \$7.8 billion at non-live meets.²⁴ In California, for example, it has been estimated that 70% of all money wagered on thoroughbreds comes from off-track betting.²⁵

A similar shift in on-track and off-track betting has occurred in Ontario. The Ontario Jockey Club recently released figures which showed that overall on-track wagering (which includes wagering on both live races and races beamed into the track) on thoroughbred racing at Woodbine, Fort Erie and Greenwood racetracks had decreased in 1995 to \$330,361,996, down from \$413,581,682 in 1994. However, off-track betting at teletheatres increased by 127.6%, so that the total amount wagered actually increased by 3% over 1994.²⁶

The shift to off-track and inter-track wagering has a number of significant implications for the racing industry. While, on the one hand, increasing the overall amount wagered benefits the racetracks, it is not necessarily in the long-term interests of the broader horse racing industry. This is because simulcasting can have the effect of reducing the number of tracks that actually need to operate or run races, and therefore the number of horses bred and trained. For example, one prediction has been that only 20 of the 128 thoroughbred racetracks around the U.S. will be running horse races a decade from now.²⁷ In addition, while inter-track wagering brings customers out to the racetrack, with the result that

they spend money on food, beverages and parking, this is not the case with off-track betting or teletheatres.

IMPACT OF CASINOS ON HORSE RACING

This section of the paper is divided into two parts. The first provides an overview of studies which examine a range of jurisdictions, draw general conclusions on the impact of casinos and estimate the projected impact of establishing casinos in Ontario and elsewhere. The second part then reviews research on the impacts of casinos established in specific jurisdictions.

Studies of Projected Impacts

In 1992, Price Waterhouse prepared a report for the Ontario Jockey Club which examined the gaming industry in Ontario and reviewed the impact of casinos in Manitoba and a number of U.S. jurisdictions. Based upon these other jurisdictions, Price Waterhouse concluded that the negative effects of casino gambling on horse race wagering ranged from 20% to 37%. The report further concluded that with a similar impact in Ontario, a loss of between 9,500 and 18,500 industry jobs would likely occur over the medium term.²⁸

In December 1992, another evaluation of the impact of casinos on horse race wagering was undertaken by Dr. Arthur Hosios, a Professor of Economics at the University of Toronto, for the Ontario Casino Project. He concluded that a reduction of 5 to 10% in racetrack wagering would be more realistic, following his analysis of previous studies, substitution effects of horse racing, casinos and lotteries, and the impact lotteries have had in Ontario on horse racing. While he concluded that lotteries have had only a minimal effect on horse racing, he cautioned that did not mean that the introduction of casinos would have such a limited effect. He then provided his conclusion concerning the expected impact of casinos on horse racing:

Dr. George Tolley of the University of Chicago prepared a study for the recent City of Chicago Gaming Commission (1992) that was highly critical of the Thalheimer-Ali studies [to be discussed below]; the latter studies are the sources of the predicted 20-40% drops in horse race handle. Using a different econometric model, Tolley estimated that the introduction of casinos would cause no more than a 4% drop in handle. Tolley's casino numbers are certainly consistent with our lottery numbers. Together, they suggest that decreases in handle following the introduction of casinos in the order of 5-10% are credible; upper limits would be decreases in the 15-20% range, the figures adopted the [sic] the Chicago Gaming Commission.²⁹

Although Dr. Hosios cites the 5-10% figure, it is important to note that he does contemplate decreases in the 15-20% range as an upper limit. Moreover, while Dr. Hosios challenged existing U.S. studies on casino impacts, his own conclusions on the 5-10% figure are based primarily on the study by Tolley he cited above. However, he has not indicated his basis for preferring Tolley's econometric analysis, other than stating that Tolley's results correspond with Dr. Hosios' own conclusions on the impact of lotteries. As well, it is worth noting that the Chicago Gaming Commission did not fully accept Tolley's conclusions, determining instead that decreases in the range of 15-20% were likely.³⁰

Dr. Hosios also disputed Price Waterhouse's conclusions on the impact casinos would have on jobs, stating that its analysis was based on figures that did not distinguish between full and part-time jobs, and included owners within the total number of persons employed. He therefore reduced the number of persons employed in the industry from 49,000 to 32,800, allowing for the fact that 5,300 owners are also either trainers or drivers. The result was a significant reduction in the projected number of jobs lost.³¹

In August 1993, Coopers & Lybrand completed an impact study for the Ontario Casino Project. Its estimates of the expected impact of casinos on horse race wagering were based on Dr. Hosios' conclusions. The report also examined other U.S. studies and argues that other factors, such as mismanagement and competition from other non-casino facilities, have also played a role in the decline of the horse racing industry. The Coopers & Lybrand report states that to ensure its continued viability, horse racing must increase its marketing efforts in the face of new competition.³²

Coopers & Lybrand also referred to the results of an Insight Canada Research survey of racetrack patrons on the expected impact of casinos on their participation in other gambling activities. It found that only 16% of racetrack patrons would find casino gaming more satisfying than racing, and that more patrons would increase, rather than decrease, their participation in racing if a casino were located near the track. Based on these observations, Coopers & Lybrand argue that horse race patrons would not be expected to reduce their racetrack wagering, and that the survey seemed to support Dr. Hosios' 5-10% figure.³³

There are three points to note concerning the conclusions drawn by Coopers & Lybrand from the survey. First, it is not clear why, if 16% of patrons would find casino gaming more satisfying, only a 5-10% reduction in wagering would be expected. Moreover, a further 15% found casino gambling equally satisfying.³⁴ Both groups of patrons might be expected to substitute some of their horse race wagering for casino wagering. Second, to the extent these patrons find casinos more or equally satisfying than horse racing, the proximity of the casino to the

track would seem to be particularly relevant to whether they would act on that preference; that is, choose the casino over the racetrack. Unfortunately, the survey either asks questions which assume the racetrack is "next" to the track or refers to the opening of a casino "in this area."³⁵ Since patrons could take "in this area" to mean at the track, within a few miles of the track or something broader, it does not provide a reliable gauge of the expected impact on a specific racetrack approximately 5 miles away (Windsor) or 20 miles away (Fort Erie) from a casino. The third point to note is that Dr. Hosios' conclusions draw significantly on the fact that lotteries have had a minimal impact on horse race wagering, and the fact that in his view lotteries and casino gambling are close substitutes. However, the Insight Canada survey shows that while 16% of patrons find casinos more satisfying than racing, only 5% found lotteries more satisfying than racing.³⁶ This suggests that casinos would have a more significant impact on racing than lotteries.

Another recent report of a general nature was a 1994 report prepared for the Governor of Florida by the Office of Planning and Budgeting. It concluded that a decline of between 13.4% and 22.3% in live handle for horse racing would occur as a result of the creation of casinos in the state, and that there would be an 8.2% decrease in intertrack handle. The Florida study notes that it based its analysis on the experience of Illinois.³⁷

Actual Impacts in Specific Jurisdictions

The above section highlighted the significant variations in methodology and conclusions among general studies and projections. But what was the concrete impact on horse racing and betting where casinos were actually established?

Ontario (Windsor)

A report by KPMG Management Consulting prepared for the Ontario Casino Project as a one-year review of *Casino Windsor* notes that the opening of the casino was a catalyst for the owner of the Windsor Raceway to invest in new products and improved facilities.³⁸ Windsor Raceway has gone from an operating loss of \$2 million in 1993 to a projected operating profit of almost \$1 million in 1995, and gross handle has increased from \$67.2 million in 1993 to \$166 million in 1995. A significant portion of this increase - \$64.7 million - is attributable to off-track betting which began in 1994. The increase in handle has enabled the purses earned to increase from \$4.9 million in 1993 to a projected \$9.4 million in 1995.³⁹ The KPMG report does not attribute the financial improvements at the Windsor Raceway directly to the casino.

While the past year has been a positive one for Windsor Raceway, there are two recent developments which suggest that it is premature to assess the impact the casino will have on the raceway. First of all, *Casino Windsor's* operations have recently been expanded to include a riverboat, the *Northern Belle*, which is

anchored down the street from the existing interim casino. The new riverboat is expected to pick up the overflow of demand at the existing casino. The importance of this development is that, to this point, that overflow may have been directed to the raceway. To the extent that it was, as the overflow is picked up by the new riverboat, there may be a reduction in track business. Moreover, it has been pointed out that an excess demand for casino gaming drives up the minimum bets set by the casino. Therefore, as demand is further met by the riverboat, this may mean that the amount of the minimum bets, at least on the riverboat, will be reduced. Since the average horse race wager is considerably less than the average existing minimum bets, a reduction in those minimums may lure more racetrack patrons from the raceway.⁴⁰

The other important development to consider, in terms of the financial outlook of the Windsor Raceway, concerns recent legislative changes in Michigan which remove previous restrictions preventing raceways from simulcasting races, and remove the pari-mutuel tax on horse race wagering. Part of Windsor Raceway's success has been through the competitive advantage it has enjoyed over Michigan racetracks in the area of simulcasting. The legislative changes noted came into effect in January 1996,⁴¹ and by the end of the month Michigan racetracks had begun simulcasting races. Windsor Raceway executives have estimated that this may take away 50% of their existing on-track business.⁴²

If the Windsor casino is to be used as an example of the impact a casino may have on racetracks, then it is important to point out as well that nearby racetracks in Michigan experienced significant negative impacts which were attributed to the opening of the Windsor casino, including an 18% decrease in handle at the Detroit Race Course.⁴³

Finally, it should be noted that the KPMG report also examined the impact *Casino Windsor* had on other areas of gaming. Its conclusions were that:

- Attendance at bingos initially dropped 25%, but has since recovered to within 5% to 10% of pre-casino levels.
- The profitability of Monte Carlo⁴⁴ events decreased. Net receipts per event fell 16% in 1994 and recovered only 3% in 1995.
- Lottery sales continue to grow in Windsor, but at a slightly slower pace than the Ontario average.⁴⁵

Manitoba

There have been a number of important developments in the growth of casino gaming in Manitoba. First, in 1989 the Crystal Casino was created in Winnipeg, a permanent, year-round facility located in the Fort Garry Hotel. Then, in 1991

video lottery terminals (VLTs) were introduced in the province. Most recently, in 1993 two bingo halls were transformed into casino-type facilities with slot machines in addition to the existing bingo games.⁴⁶

The Price Waterhouse report, referred to earlier, notes that in Manitoba horse racing dropped from third place in market share in 1990 to fourth in 1991. The 3% drop which occurred corresponded with the increase in the casino's share of 3% over the same period.

Assiniboia Downs, the racetrack closest to the Crystal Casino, suffered a significant loss in both attendance and wagering following the opening of the casino in 1989. For the year ended December 31, 1991, wagering was down \$5.6 million or 11% from its 1989 level.⁴⁷ Wagering has continued to fall, though a number of other developments, including legalized government sports betting, appear to have accelerated the decline. However, in 1993, Assiniboia Downs received approval for the placement of 140 VLTs at the racetrack. The VLTs have enabled the racetrack to continue to operate and attendance has increased slightly at the track.⁴⁸

New Jersey

The research referred to by Dr. Hosios as the Thalheimer-Ali study examined the impact of casino gambling, as well as inter-track wagering and the state lottery, on pari-mutuel horse race wagering in New Jersey in 1992. It found that casinos, which were introduced in Atlantic City in 1978, have had a statistically significant negative impact on pari-mutuel horse race wagering in New Jersey. The study notes that from 1978 to 1988 the number of casinos in Atlantic City grew from 1 to 12. By 1988, the impact of casino gambling on horse race wagering was estimated to be a decrease of 33.9%.⁴⁹

Illinois

In Illinois, competition for racetracks has come in the form of riverboat casino gambling. A January 1994 report by the Illinois Economic and Fiscal Commission examined the impact of riverboat gambling on horse race wagering and found the following:

- In 1991, after the introduction of riverboats in Iowa, the track handle for Quad City Downs (a nearby Illinois racetrack) decreased by 34.1%, while in the previous year it had decreased by only 14%. During the same period the handle at other Illinois tracks not located near a riverboat declined only 6.7%.
- In 1992, following the introduction of a nearby riverboat, the on-track handle for Fairmount Park racetrack decreased by 31.1%, while during the same time other tracks in areas without riverboats declined by only 4.8%. As

well, through July 1993, on-track handle at Fairmount Park had declined a further 20.5% from the prior year, more than double the decline of other tracks (9.7%).

Based on these observations, the Commission concluded that those tracks in relatively close proximity to riverboats seem to have suffered greater declines, approximately 10% to 15% more than those tracks further from riverboats.

The Commission also examined the impact of riverboats on nearby off-track betting parlours. The report notes that:

- An OTB parlour in Peoria experienced a 28.2% decline in handle in 1992 after the introduction of a riverboat, while during the same period other OTBs not located near a riverboat experienced a slight improvement.
- An OTB in Joliet experienced a decline of 12.9% from the prior year, compared with a slight increase in wagering at other OTB facilities not located near a riverboat.

The Commission's report therefore concluded that OTB facilities in close proximity to a riverboat can expect to sustain a decline in total handle of approximately 5-15%.

However, with respect to on and off-track betting, the report cautions that the declines in handle cannot be attributed solely to riverboat gambling.⁵⁰

Minnesota

Canterbury Park racetrack is just outside Minneapolis. In 1992, a Native American casino opened three miles down the road. Prior to the casino opening, attendance at the track was 5,825 a day and daily handle was \$678,000. Within seven months the track closed when attendance had slipped to 2,900 a day and handle had been reduced to \$203,000. However, in 1994, under new ownership, the track reopened as a simulcasting outlet. After operating as an inter-track facility for a period of time, and by setting aside part of its handle for purses, it was able, in 1995, to run 55 days of live racing (prior to its closing, it had run 125 days).⁵¹

STRATEGIES TO RESPOND TO CASINOS

Although the initial response of the horse racing industry in most jurisdictions has been to resist legislation that would permit casinos, once casinos have been approved, efforts inevitably become redirected toward responding to the competition casinos bring. This section of the paper reviews some of the strategies that have been pursued in various jurisdictions both by the horse racing industry, and by legislators, in response to concerns raised by the industry.

Joint Ventures

A number of racetracks in the United States have responded to the casino onslaught by pursuing joint ventures with casino operators. These joint ventures have taken various forms, including agreements to operate riverboats between Louisiana Downs and Casino America, Churchill Downs and Promus Companies (Kentucky) and Arlington Park and Mirage (Illinois). Other track owners have signed deals to have casinos built on lands adjacent to their track facilities: Turfway Park in Florence, Kentucky and Woodlands Park, in Kansas City, Missouri.⁵²

The benefits of such ventures to racetracks and to casino companies differ. On the one hand, these partnerships offer track owners the chance to control their own fate, generate income from casino gaming popularity, and better protect the racing industry. At the same time, casino operators welcome partnerships with tracks as a way to form relationships with new communities, take advantage of potential casino sites, and promote regional support for new gaming projects.

However, such partnerships encounter some difficulties as well. Where a racetrack seeks a joint venture to operate a riverboat, some form of capital investment is needed which is not always available for many cash-strapped tracks. The unavailability of adequate land can be another problem faced by those who want to build a casino adjacent to a racetrack. There are also concerns that the image of racing will be damaged by gaming concerns and that the racing product will be sacrificed at some point for better casino returns.⁵³

In Canada, Coopers & Lybrand's 1993 report to the Ontario Casino Project recommended that the industry work jointly with casinos to pursue the possible location of casinos within or adjacent to a major racetrack.⁵⁴ The notion of joint ventures between casinos and racetracks is also supported by some members of the horse racing industry. For example, while Racetracks of Canada Inc., an association of Canadian racetracks, was opposed to the adoption of casinos in Ontario, once it was clear that the government was going to proceed, it took the position that it would best serve the province if it were to designate racetracks as preferred sites for casinos, in order to lessen the impact on the racing industry of

the introduction of casinos.⁵⁵ The Ontario Jockey Club is currently pursuing the possibility of placing a casino next to Woodbine Racetrack in Toronto.⁵⁶ As well, prior to the announcement of the Niagara Falls casino, the Economic Development Corporation of Fort Erie ("Fort Erie EDC") had argued that if a casino was to be created in the Niagara region, then it should be placed at the Fort Erie racetrack.⁵⁷

The example held out as proof of the potential of combining racetracks and casinos is Hollywood Park in California, a 60,000 sq.ft. card club/inter-track wagering facility built next to the raceway. Although casino gaming, such as slot machines, is not allowed in California, card clubs are permitted. The card club is closely integrated with the raceway. Patrons are able to both participate in inter-track racing and bet on races next door, with the help of racetrack employees who are available to run bets for patrons playing card games. Monitors showing the races are spread throughout the club.

Some caution has been expressed about using the success of the Hollywood Park club as an example of the benefits of combining racing with other casino gaming, such as slot machines. Card players and pari-mutuel gamblers both prefer games that require a degree of skill and expertise. Bringing in more card players could therefore be expected to increase the amount wagered on horses, as has been the case at Hollywood Park. However, as most casino games are a matter of pure luck, the spin-off effect may not be as great where other forms of casino gaming are joined with a racetrack, as the casino gambler may not be attracted to the horse racing product.⁵⁸

Another location where a casino exists next to a racetrack is at Regina Exhibition Park in Regina, Saskatchewan. There, VLTs, casino games such as roulette and blackjack, card games and horse racing are all integrated in one facility. Initially, the casino activities, though opened on the same premises, were kept separate, primarily because alcohol was not permitted in the casino. The result was that handle at the racetrack went down by 23%. Once the barriers between the facilities were removed and the beverage restrictions on the casino were lifted, simulcast wagering at the track increased by 40% and live track handle rebounded.⁵⁹

Slot Machines in Racetracks

Another common response to the competition of casinos has been for racetracks to bring slot machines to the track, both to enable them to hold onto customers and as a valuable source of new revenue. At present, eight of the ten provinces in Canada permit the operation of VLTs or slot machines at racetracks.⁶⁰ The Coopers & Lybrand report for the Ontario Casino Project suggested that placing slot machines or VLTs in racetracks is another method that could be used to mitigate the impact of casinos on racetracks.⁶¹ In Ontario, however, slot

machines and VLTs are not permitted outside of a casino. The objects of the Ontario Lottery Corporation provide for it to conduct a broad range of lottery schemes, which may include the operation of a system of VLTs in the province. However, the adoption of new regulations would likely be required to provide for their operation and management.⁶² In the meantime, the only possibility is for the Ontario Casino Corporation to provide for their operation as part of a "casino" at the racetrack.

Many racetracks in the United States have installed either slot machines or VLTs in response to the expansion of casinos. For example, in December 1995 a casino to house 500 slot machines was built in front of the racetrack's main grandstand at Dover Downs racetrack in Dover, Delaware.⁶³ On the first weekend, in addition to substantial casino revenues, Dover Downs saw an increase each day in the amount of the combined simulcast and live race wagering over the previous year.⁶⁴

Another example is a greyhound racetrack in Lincoln Park, Rhode Island, located near Foxwood's Casino in Connecticut, which opened in 1992. Following substantial decreases in both handle and attendance, state legislators agreed to permit VLTs at the racetrack. At first, the VLTs met with limited success, but following changes in their operation, increases in the return given, upgrading of the facility and the dropping of admission and parking fees, the VLTs grew as a source of revenue. As of January 1, 1995, average weekly revenue from the VLTs was \$2.8 million, of which \$600,000 - \$800,000 went to the track. However, the horse racing handle has continued to drop at Lincoln Park.⁶⁵

In Iowa, in response to negative impacts from riverboats, the government legalized the operation of gambling machines at racetracks.⁶⁶ As a result, at Prairie Meadows racetrack in Altoona, Iowa, revenues from 1,100 slot machines installed in April 1995 enabled the racetrack to increase purses by \$1.2 million.⁶⁷ Other U.S. tracks that have installed slot machines include the Fairgrounds Race Track in New Orleans, Louisiana Downs racetrack, and Mountaineer Park in West Virginia.⁶⁸

These examples illustrate that, at the very least, the placement of slot machines at racetracks provides a helpful source of new revenues for racetracks. While it is not clear whether their presence assists in increasing the amount actually wagered on horse racing, by increasing the track's revenues it may be possible for the tracks to increase the purses at the track and ultimately the number of days that races are run. Both of these possibilities contribute in a positive way to the broader horse racing industry.

Marketing Efforts

One criticism of the horse racing industry has been that in the past the industry has used its monopoly position as an excuse not to respond to the desires of its betting customers. While casinos pampered their customers, racetrack customers would come and go in virtual anonymity. One commentator has suggested that this reflected a particular mindset which he described in the following way:

... the mentality not that long ago was, "We're not in the gambling business. We stage athletic contests to improve the breed. And there are these people, not very likeable people, who come through our gates and engage in some form of low-class gambling activity." I mean, they had to know that betting was creating the purses for the Metropolitan Handicap and Belmont Stakes, but maybe they didn't. Maybe they thought they were just trading gold cups among families.⁶⁹

The Coopers & Lybrand report for the Ontario Casino Project comments that horse racing has, until recently, been characterized by minimal promotion and has had little success in expanding beyond its core customers.⁷⁰ The report states that it is essential for the racing industry to broaden its market base, and argues that a major promotional effort aimed at attracting women and young adults could significantly offset the transfer of wagering to casinos.⁷¹

Some tracks are, indeed, trying to promote their product more aggressively, as evidenced by attempts to bring casino-type activities into the racetracks and other marketing efforts. At Hollywood Park in southern California, for example, a concerted effort is being made to attract a younger, more family-oriented crowd. The track has installed an amusement area for children that includes video games and a playground with slides and a carousel. As well, the casino houses private party rooms, karaoke suites, a health club, a 24-hour four-star cafe and a sports bar with a 21 piece swing band.⁷² These efforts have not only produced greater revenues through the card club, but overall wagering on horses has increased by about 13% since the casino began operating in 1994.⁷³

However, there is a more pessimistic view of efforts to market horse racing. One commentator simply attributes the decline in interest to people's lifestyles; they no longer have time to get into a sport like horse racing and while attempts to market horse racing may stem the decline for a time, eventually more of the horse money will be bet on sports like pro football.⁷⁴

Off-Track/Teletheatre Betting

As discussed earlier, one of the most significant developments in the horse racing industry has been the expansion of opportunities for horse race wagering through off-track betting and inter-track wagering. Further pursuit of these developments can help the industry remain competitive in the face of casino gaming. For example, as noted earlier, Michigan has just passed legislation to permit simulcasting, and other states, such as Iowa, expanded the ability of tracks to simulcast in response to the onslaught of casino gambling.

While in Ontario both simulcasting and off-track betting are already permitted, the Coopers & Lybrand report recommended that the racing industry continue to pursue the expansion of teletheatre wagering and the broadcasting of Ontario horse races to other jurisdictions.⁷⁵ In this regard, the Ontario Casino Project and Windsor Raceway have agreed that the permanent casino to be built in Windsor will house a 600 seat teletheatre for racetrack betting.⁷⁶

Reduced Taxes

In response to changes in the horse racing industry resulting from increased competition from casinos, a number of jurisdictions have removed or reduced the pari-mutuel tax. (As noted earlier, a pari-mutuel tax is a tax on the amount wagered.)

A pari-mutuel tax was first imposed in Ontario in 1939 when horse racing had a monopoly over the legal gaming industry in the province. At present, the pari-mutuel tax is 7.4%,⁷⁷ 2.4% of which is given back as a rebate to the horse breeding industry. The Ontario pari-mutuel tax is the highest in any major North American jurisdiction, other than the tax on thoroughbred racing in California, and is 50% greater than the average pari-mutuel tax at tracks throughout North America.⁷⁸ Although the Ontario tax is high, it should be noted that in 1992, the Ontario government announced a \$2.5 million annual rebate program for the horse racing industry to be paid directly to racetracks.⁷⁹ This program was to be in place for a minimum of four years, however, the fourth year of the program has recently been cancelled.

The Ontario Jockey Club has argued for a reduction in the pari-mutuel tax from 5% (after accounting for the 2.4% rebate to the horse breeding industry) to 2%.⁸⁰ Most recently, the Ontario Horse Racing Industry Association presented a paper to the government requesting, in part, that the tax be lowered to 0.5%.⁸¹

In New Jersey, both the amount of pari-mutuel taxes and their use by the government have been transformed since the advent of casinos. The pari-mutuel tax in New Jersey is now 0.5%. A report of New Jersey's Governor's Advisory Commission commented that:

In the years since legalization, pari-mutuel betting on racing has been transformed from a tool for raising revenue for the general fund into a means of funding substantial subsidies for the horse racing industry. These subsidies are now justified on the grounds of job creation, the preservation of farm land, and the contribution of the Meadowlands to the state's national image.⁸²

As well, Iowa state and local governments lowered taxes on racing revenues following increased competition from riverboat gambling.⁸³ Most recently, Michigan has removed its pari-mutuel tax in direct response to lobbying by the horse racing industry following the opening of the Windsor casino.⁸⁴

Finally, it should be noted that in 1993, Ernie Eves, MPP for Parry Sound, introduced a private member's bill which would have reduced the pari-mutuel tax to 0.5%.⁸⁵ The bill did not pass second reading.

APPROACHES TO MITIGATE THE IMPACT OF CASINOS ON THE FORT ERIE AND WINDSOR RACETRACKS

This section considers both the potential impact of the proposed Niagara Falls casino on the Fort Erie horse racing industry, as well as the continuing impact of the Windsor casino on the Windsor Raceway.

No studies have been undertaken to assess the potential impact of the Niagara Falls casino on the Fort Erie racetrack, or on the broader horse racing industry in the Fort Erie area.⁸⁶ The Fort Erie EDC had proposed that if a casino were to be located in the Niagara region it should be located at the Fort Erie racetrack. Representatives of the Fort Erie EDC stated that the decision to proceed instead with the casino in Niagara Falls has devastated the Fort Erie community.⁸⁷ In their view, the location of the track, approximately 20 minutes away from Niagara Falls, puts it in an even worse position than the Windsor raceway in attempting to both draw on and compete with the success of the casino.

To avoid or mitigate the expected negative impacts on the Fort Erie community, where approximately 5,500 of the 11,000 jobs in the community are related to the gaming industry, the Fort Erie EDC is proposing that the government pursue a combination of the following options:

- Create a smaller, satellite casino at the Fort Erie racetrack to begin operations at the same time as the casino in Niagara Falls.

- Permit slot machines or video lottery terminals at the Fort Erie racetrack, possibly as a test site for the placement of such machines outside of a casino.
- Ensure effective joint marketing of the casino and the racetrack, and adopt effective measures to transport people from the casino to the racetrack.⁸⁸

These proposals represent common strategies throughout the racing industry in North America and were suggested in the Coopers & Lybrand report prepared for the Ontario government in 1993.

With respect to Windsor Raceway, the recent legislative changes in Michigan have left it concerned about its future financial success. Although it has done well to this point, raceway officials believe further steps are needed to integrate its activities with casino gaming in order for it to continue to compete effectively. Windsor Raceway has suggested, in particular, two steps that could be taken by the Ontario government to ensure that the casino has a positive, not a negative, impact on the raceway: creation of a satellite casino at the racetrack, which could be linked to the operation of *Casino Windsor*, or the placement of slot machines in the racetrack area. Either option would enable Windsor Raceway to attract a wider clientele and would give them a competitive advantage over the Detroit racetracks.⁸⁹ While the Michigan racing industry has managed to obtain removal of its pari-mutuel tax and approval of simulcasting, it was not able to gain approval for casinos or slot machines at Michigan racetracks.⁹⁰

Officials at the Ontario Casino Corporation have indicated their intent to sit down with officials from Fort Erie to discuss issues related to the opening of the Niagara Falls casino. In particular, joint marketing and placement of off-track betting facilities in the casino are options that could be considered.⁹¹ While both efforts are welcomed by the racing industry, some of its members believe that a closer integration of horse racing and casino activities (through the placement of slot machines or actual casinos at racetracks) is necessary for it to withstand the spread of casino gaming in the province.

NOTES

- ¹. Ontario, Ministry of Finance, *1995 Fiscal and Economic Statement* (Toronto: The Ministry, 1995), pp. 24-25.
- ². While this paper examines the impact of casinos on horse racing, there are a number of other important policy concerns related to an expansion of casino gambling which cannot be analyzed here. These include problems such as compulsive gambling, related criminal activities, the regressive nature of gambling as a source of government revenues, and the possible negative economic impacts on other sectors of the economy, including other forms of gaming and entertainment.
- ³. C.S. Campbell and J. Lowman, eds., *Gambling in Canada: Golden Goose or Trojan Horse?* (Burnaby, B.C.: Simon Fraser University, 1989), pp. xviii-xvix.
- ⁴. Price Waterhouse, *Study of the Impact of Casino Gambling on the Ontario Horse Racing Industry* (Toronto: Ontario Jockey Club, 1992), p. 2.
- ⁵. The Coopers & Lybrand Consulting Group, *Report to the Ontario Casino Project: Ontario Casino Market and Economic Impact Study* (Toronto: Ontario Casino Project, 1993), Appendix 10.
- ⁶. Ibid.
- ⁷. *Ontario Casino Corporation Act, 1993*, S.O. 1993, c. 25.
- ⁸. Price Waterhouse (1992), p. 3.
- ⁹. Coopers & Lybrand (1993), p. 39.
- ¹⁰. Ministry of Consumer and Commercial Relations, *The Horse Racing Industry in Ontario: A Framework for Discussion* (Toronto: The Ministry, 1994), p. 22.
- ¹¹. Price Waterhouse (1992), p. 6.
- ¹². KPMG Management Consulting, *One-Year Review of Casino Windsor* (Toronto: Ontario Casino Corporation, 1995), p. 1.
- ¹³. This project was recently put on hold; however, the government has announced that construction will now resume and that the casino is scheduled to open in July 1996. W. Walker and B. DeMara, "Casino

construction resumes but without deal, Indians say," *Toronto Star*, 9 March 1996, p. A17.

¹⁴ The interim site for the Niagara Falls casino is Maple Leaf Village, located in the main tourist area adjacent to the Rainbow Bridge. The site was announced on April 15, 1996, with the interim casino scheduled to open in late fall 1996. See: Ministry of Economic Development, Trade and Tourism, "Maple Leaf Village identified as site for interim casino in Niagara Falls," *News Release*, 15 April 1996, p. 1 and attachment "Background: Niagara Falls Development The Casino/Gateway Project," p. 3.

¹⁵ T.M. Ito et al, "Racing's rough ride," *U.S. News & World Report* (12 June 1995): 42.

¹⁶ E.M. Christiansen and W.E. Cummings, "The United States 94 Gross Annual Wager," *International Gaming & Wagering Business* (1 August 1995): 29, 42.

¹⁷ Ibid.

¹⁸ Ibid., p. 32.

¹⁹ R. Thalheimer and M. Ali, *An Analysis of the Impact of Intra-State Intertrack Wagering, A State Lottery and Casino Gambling on Parimutuel Horse Race Wagering: New Jersey - An Expanded Analysis* (Louisville, Kentucky: Department of Equine Administration, University of Louisville, 1992), p. 1.

²⁰ Robert Goodman, *Legalized Gambling as a Strategy for Economic Development* (Northampton, MA: United States Gambling Study, 1994), p. 123.

²¹ Christiansen and Cummings, "The United States 94 Gross Annual Wager," p. 42.

²² Jack Lakey, "Betting the TV ponies," *Toronto Star*, 22 August 1995, p. A1.

²³ Christiansen and Cummings, "The United States 94 Gross Annual Wager," p. 34.

²⁴ William Nack, "A House Divided," *Sports Illustrated*, 10 July 1995, p. 52.

²⁵ T.M. Ito, "Racing's rough ride," p. 42.

26. "Glowing numbers boost jockey club," *Toronto Star*, 8 December 1995, p. B7.
27. T.M. Ito, "Racing's rough ride," p. 42.
28. Price Waterhouse (1992), pp. 14-15.
29. Arthur J. Hosios, *An Evaluation of the Potential Impact of Casino Gambling on Horse Race Wagering and Racehorse Industry Employment in Ontario* (Toronto: Ontario Casino Project, Government of Ontario, 1992), p. 22.
30. Ibid.
31. Ontario, Legislative Assembly of Ontario, Standing Committee on Finance and Economic Affairs, *Brief in Response to Bill 8, An Act to create the Ontario Casino Corporation* (Toronto: Arthur J. Hosios, 1993), Section 6.
32. Coopers and Lybrand (1993), p. 44.
33. Ibid.
34. Insight Canada Research, *Ontario Casino Project - Survey of Race Track Patrons* (March 1993), V Interview Schedule, Q. 15.
35. Ibid., Q. 16, Q. 25 and Q. 26.
36. Ibid., Q. 22.
37. Florida. Office of Planning and Budgeting, Executive Office of the Governor, *Casinos in Florida: An analysis of the Economic and Social Impacts* (Tallahassee, FL: The Office, 1994), p. 44.
38. KPMG (1995), p. 60.
39. Ibid., pp. 65-67.
40. Telephone interview with Jean Major, Director, Ontario Racing Commission, 8 January 1996.
41. Bev Eckman, "Simulcasts expected to revive state racetracks," *Detroit News*, 15 January 1996, p. D1.
42. Telephone interview with John Millson, President, Windsor Raceway, 15 January 1996.
43. Nack, "A House Divided," p. 52.

44. A Monte Carlo event is a temporary casino that is run for charitable purposes and lasts no longer than three days in one location.
45. KPMG (1995), p. 60.
46. The Club Regent and McPhillips Street Station, both in Winnipeg. Telephone interview with Susan Olynik, Corporate Communications, Manitoba Lotteries Corporation, 24 January 1996.
47. Price Waterhouse (1992), pp. 8-9.
48. Telephone interview with Craig MacDonald, Manitoba Jockey Club, 24 January 1996.
49. Thalheimer and Ali (1992), p. v.
50. Illinois Economic & Fiscal Commission, *Wagering in Illinois: A Report Updating the Economic Impact of Gambling Activities* (Springfield, Ill.: The Commission, 1994), pp. 6-8.
51. Nack, "A House Divided," p. 52.
52. Paul Doocey, "Race Tracks Bet Future on Riverboats," *International Gaming & Wagering Business* 15:1 (5 January 1994): 1, 40.
53. Ibid.
54. Coopers and Lybrand (1993), p. 45.
55. Gisele Grignon, "Casinos in place at racetracks would be a sure bet for all, says racetrack executive," *Ontario Farmer Western Edition*, 18 November 1992, p. 35.
56. Telephone interview with Susan Fahnestock, Director of Casino Development, Ontario Jockey Club, 5 January 1996.
57. Telephone interview with John Palumbo and Herb McGirr, Sr., Economic Development Corporation of Fort Erie, 12 January 1996.
58. Paul Doocey, "Tracks: Not just racing anymore," *International Gaming & Wagering Business* (1 January 1995): 34.
59. Ibid.
60. Telephone interview with John Millson, President, Windsor Raceway, 15 January 1996. At the time of the Coopers and Lybrand report (1993) there were seven. See Appendix 10.

- ⁶¹. Coopers and Lybrand (1993), p. 45.
- ⁶². R.S.O. 1990, c. O.25, s. 8. However, there may be some question as to whether an amendment to the Act would be required.
- ⁶³. Associated Press, "Slot machines open tomorrow at 2 racetracks in Delaware: Testing of the Machines at Dover Downs and Delaware Park is Complete," *Philadelphia Inquirer*, 28 December 1995, p. B3.
- ⁶⁴. Harness Tracks of America, Inc., "Delaware opens new east coast racing era with slots, problems," *Track Topics*, 1 January 1996.
- ⁶⁵. Doocey, "Tracks: Not just racing anymore," pp. 30-32.
- ⁶⁶. Robert Goodman, *The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion* (New York: The Free Press, 1995), p. 99.
- ⁶⁷. Roxy Roxborough, "Winning tracks embrace change," *International Gaming & Wagering Business* 16:9 (1 September 1995): 82.
- ⁶⁸. Nack, "A House Divided," p. 52.
- ⁶⁹. Nack, "A House Divided," quoting Steven Crist, Director of Communications and Development, New York Racing Association.
- ⁷⁰. Coopers and Lybrand (1993), p. 43.
- ⁷¹. Ibid., p. 45.
- ⁷². Donald H. Dissinger, "Track to the Future," *International Gaming & Wagering Business* (1 May 1995): 58, 60.
- ⁷³. T.M. Ito et al, "Racing's rough ride," p. 44.
- ⁷⁴. John J. Cullerton, "Sen. Cullerton on gaming in Illinois: Horse racing industry on decline, but I see land-based casino gaming on the way," *International Gaming & Wagering Business* (15 June 1993): 45.
- ⁷⁵. Coopers and Lybrand (1993), p. 45.
- ⁷⁶. Chris Vander Doelen, "Caesars-Circus-Hilton nabs plum Windsor pact," *International Gaming & Wagering Business* 15:1 (5 January 1994): 3.
- ⁷⁷. The actual tax is 9% on triactor bets and 7% on other wagers. The 7.4% figure represents the usual average tax per wager. Telephone

interview with Greg Fernandes, Deputy Director of Finance and Administration, Ontario Racing Commission, 23 January 1996.

⁷⁸. Price Waterhouse (1992), pp. 3-5.

⁷⁹. Ontario, Ministry of Consumer and Commercial Relations, "Ontario Announces Support Program For Horse Racing Industry," *News Release*, 15 September 1992.

⁸⁰. Jack Lakey, "Leaders cool to OJC tax proposal," *Toronto Star*, 11 May 1995, p. D10.

⁸¹. J. Lakey, "Horse racing industry asks for \$44 million tax break," *Toronto Star*, 26 January 1996, p. E3.

⁸². Governor's Advisory Commission on Gambling, *Report and Recommendations of the Governor's Advisory Commission on Gambling* (Trenton, NJ: The Commission, 1988), p. 93.

⁸³. Robert Goodman, *The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion*, p. 99.

⁸⁴. Telephone interview with John Millson, President, Windsor Raceway, 15 January 1996.

⁸⁵. Bill 51, *An Act to amend the Race Tracks Tax Act*, 3rd Sess., 35th Leg. Ont. 42 Eliz. II, 1993 (1st Reading, 2 December 1993).

⁸⁶. Telephone interview with Atam Uppal, Director, Operations, Ontario Casino Corporation, 14 December 1995.

⁸⁷. Telephone interview with John Palumbo and Herb McGirr, Sr., Economic Development Corporation of Fort Erie, 12 January 1996.

⁸⁸. Ibid.

⁸⁹. Telephone interview with John Millson, President, Windsor Raceway, 15 January 1996.

⁹⁰. Bev Eckman, "Simulcasts expected to revive state racetracks," p. D6.

⁹¹. Telephone interview with Atam Uppal, Director, Operations, Ontario Casino Corporation, 14 December 1995.

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